

MOODY'S

INVESTORS SERVICE

Rating Action: Moody's Affirms Saint Peter's University Hospital's (NJ) Ba1 Rating; Stable Outlook

Global Credit Research - 19 Apr 2017

New York, April 19, 2017 -- Summary Rating Rationale

Moody's Investors Service affirms the Ba1 rating on Saint Peter's University Hospital's (SPUH) outstanding debt issued through New Jersey Health Care Facilities Financing Authority of approximately \$149 million. The outlook is stable.

The Ba1 reflects maintenance of stable break-even financial performance, resulting in adequate debt service coverage of a modest debt burden. Liquidity metrics show improvement but remain below median rated peers. The affirmation acknowledges strong revenue growth across various service lines in FY 2016, including for its well-regarded women's and children's services, in spite of a highly competitive and consolidating service area. Challenges include continued litigation regarding the Church Status of the pension plan, which could provide additional strain on liquidity if there is an unfavorable ruling, and ongoing litigation filed against the largest payor in the state.

Rating Outlook

The stable outlook reflects our expectation that SPUH will continue to achieve consistent operating results as it continues to diversify revenue streams. Despite competitive market pressures, management has demonstrated an ability to operate within a narrow corridor of financial flexibility that should continue over the near term.

Factors that Could Lead to an Upgrade

Sustained financial performance and much improved liquidity and debt service coverage

Factors that Could Lead to a Downgrade

Departure from current level of financial performance that results in weaker debt service coverage metrics

Reduction in liquidity

Unfavorable final ruling regarding pension that requires significant contribution and impairs liquidity

Material increase in debt without commensurate cash flow increase

Substantial erosion of market position

Legal Security

The obligated group is comprised of Saint Peter's University Hospital (SPUH). Margaret McLaughlin McCarrick Care Center, a 120-bed nursing home which was a member of the obligated group, was sold to an outside party in FY 2015. All tests and covenants associated with the withdrawal from the legal borrowing group were met. The bonds are secured by gross revenue pledge and a mortgage of certain hospital property in New Brunswick. Debt service coverage ratio covenant of at least 1.25 times is measured on a twelve month rolling date; coverage is adequate.

Use of Proceeds

Not applicable.

Obligor Profile

Saint Peter's University Hospital is the largest component of Saint Peter's Healthcare System, Inc. a \$483 million (total revenues) system located in New Brunswick, New Jersey. Major service lines include women and

children's services.

Methodology

The principal methodology used in this rating was Not-For-Profit Healthcare Rating Methodology published in November 2015. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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